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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000819

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SUBJECT: AZERBAIJAN FM ON ENERGY, TURKMENISTAN AND IRAN

Classified By: CDA DONALD LU, REASONS 1.4 (B,D)

¶1. (C) Summary: On June 22 Azerbaijan Foreign Minister Elmar Mammadyarov said that he sensed "some momentum" from Turkmenistan towards reaching out to the West and diversifying its gas export routes. The GOAJ is ready to start gas transit talks with Turkey, with SOCAR taking the lead. Having just returned from his first trip to Iran in two years, he thought the economy in worse shape than during Khatami's tenure, but thought that the Ahmadinejad administration was full of "true believers." Mammadyarov said his IRI interlocutors stressed the need for Iranian support of the Maliki government and of Iraq's territorial integrity, and the need to continue talks with the U.S. Mammadyarov was optimistic about Azerbaijan's economic prospects and about the regional situation, saying that Nagorno-Karabakh will be solved because "Armenia will eventually realize that it is better to be part of the team." End Summary.

¶2. (C) On June 22 Foreign Minister Mammadyarov met with EnergyOff, Cambridge Engery Research Associates President Dr. Daniel Yergin, and Dr. Angela Stent, Professor of Government and Foreign Service and Director of the Center for Eurasian, Russian and East European Studies at the Georgetown School of Foreign Service.

TURKMENISTAN

¶3. (C) Mammadyarov said that he had had good discussions with his Turkmen counterpart in the June 20 Caspian Sea littoral states Conference, "sensing some movement" from the Turkmen. Mammadyarov said he stressed the virtues of diversification to the Turkmen FM, who "got it." Previously, when Mammadyarov had met the former Turkmen President he had made the same argument, to which the late Turkmenbashi would say, "we just supply gas to our borders." In recent discussions with President Berdymukammedov in Ashgabat, Mammadyarov had stressed that diversification was a good model for security, and would also allow Turkmenistan to earn much more for its gas. Mammadyarov said that "we have to give (Turkmenistan) arguments" for reaching out westwards, while not irritating them with too much pressure. He referred to the commission set up at the level of the Deputy Prime Minister to work with Turkmenistan on humanitarian and transportation issues. Mammadyarov said that Turkmenistan "wants to open up," but if the USG "puts the issue of political prisoners at the top of the list," it will decrease the momentum.

¶4. (C) Mammadyarov said that Central Asian gas would be "crucial" over the next decade, and that Russia would be

working hard to keep control over it. Azerbaijan points out to Russia that Russia exports approximately 170 bcm/a, while Azerbaijan can export at most around 30 bcm/a, and as such Russia should not see Azerbaijan as competition. The GOAJ should focus first on Turkmenistan vice Kazakhstan, because "the Turkmen need us more." Turkmen gas would be key for Nabucco, and both Turkmen and Azerbaijani gas companies could get shares of Nabucco as part of any deal.

15. (C) FM Mammadyarov asked Dr. Yergin for his assessment of the Russian energy sector, given public assessments that production from Yamal was due to decline. Yergin said that contrary to public analysis, CERA did not anticipate that there would be any "Russian gas crisis," although Russia would have to take steps to develop its own reserves. Russian domestic gas prices would also have to rise. Yergin said that the joke in Russia was that the name of the two major political parties were "Gazprom and Rosneft." In response to Mammadyarov's question as to whether Gazprom have the technical knowledge to develop Russian gas deposits, Yergin said that it was an inefficient company, but one with huge financial and energy reserves. Russia itself now had USD 700 billion in reserves, and was "tremendously confident."

16. (C) As for Russian pressure on Azerbaijan, Mammadyarov said that Russia has in the past explicitly told the GOAJ not to sell gas to Turkey, as it viewed Turkey as its own market. Instead, Russia said Azerbaijan could sell its gas to Russia, an offer Azerbaijan spurned. This last winter when Gazprom was pressuring the GOAJ, there was a "big discussion" in the GOAJ as to whether it could afford to stand up to Russia, especially after Georgia "caved in." Given the GOAJ's decision to break away from Russian pressure,

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Mammadyarov said that the GOAJ was telling Central European gas consumers that "Azerbaijan has the volumes," asking them in turn, "are you committed?"

17. (C) Yergin asked Mammadyarov how far along gas transit talks were with Turkey. Mammadyarov said that Azerbaijan was ready, with SOCAR poised to take the lead for the GOAJ. He said that he hoped the GOAJ would get an answer from Turkey in the following week, when he and President Aliyev were going to Istanbul to participate in the BSEC. He said that when he had informed the Turkish FM that he would be sending him a letter requesting starting gas transit talks, Foreign Minister Gul responded to the effect of, "please don't get me involved in this whole energy mess!" Mammadyarov expected a positive response, saying Turkey "could not say no" to the GOAJ's request, but added that "negotiations could very well be quite hard."

Iran Economy

18. (C) Mammadyarov said Iran was "an interesting case." His recent trip for the Caspian littoral conference there was his first in two years. Based on these last two visits, his impression was that the economy had been doing well under Khatami, but that now under Ahmadinejad the economy is not doing well, although it is unclear to what extent the current economic status is a function of UNSCR sanctions. Mammadyarov got the sense that the people currently in power (i.e., the Ahmadinejad crowd) were "dedicated, and believed in what they were doing."

Iran - Qabala

19. (C) He said that his Iranian interlocutors raised the Qabala issue, to which Mammadyarov replied that if Iran has a peaceful nuclear program, "why should you object to this proposal?" He said that the Iran doesn't think that the USG will accept this Putin initiative. In response to a question

from Dr. Yergin, Mammadyarov said he did not believe that Russia notified Iran before putting forward the Qabala initiative, as Russia doesn't respect Iran, seeing it merely as a "tool."

¶10. (C) Mammadyarov said that he himself thinks that Russia doesn't expect the U.S. to agree to the Qabala initiative. However, he thought the proposal "opened a window of opportunity" for the U.S. to be "officially in the region," at the behest of the Russians.

Iran - U.S. Talks

¶11. (C) Mammadyarov said the Iran "briefed him" on its talks with the U.S. He found it significant that his Iranian interlocutors stressed repeatedly that they supported the Maliki government in Iraq and more generally Iraq and Afghanistan's territorial integrity, and that they thought it "important to continue talks with the U.S." Mammadyarov said his own personal opinion was that it was "best for the U.S. to be in Iraq, not out."

Iran Nuclear Policy

¶12. (C) Mammadyarov sensed that "on the street" the Iranian populace were "strong believers" in Iran's current overall foreign policy course and in its nuclear policy, which the administration has portrayed in nationalist colors - "the issue is pride," concluded Mammadyarov. In response to Dr. Yergin's question as to the polarizing effect of different political and ethnic factions, Mammadyarov said that Iranian nationhood is understood by every Iranian "at the DNA level," and that his sense is that the Iranian nationhood does not feel threatened. In foreign policy, Iran will continue its strategy of trying to "peel off" Russia and China from any international consensus that threatens Iran.

¶13. (C) Continuing, Mammadyarov said that "the NPT is almost dead" He said that he had talked to (then) Secretary Powell and also to Secretary Rice about the need for new method to deal with the issue of uranium enrichment, such as a "UN bank of Enriched Uranium."

Azerbaijan as Counter-Example?

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¶14. (C) Yergin asked Mammadyarov if the Iran sees Azerbaijan's success as a threat, as it offers a "counter-example" to the Iranian people. Prefacing his comments by saying that approximately 30 million Iranians, equal to 40 percent of the population, are Azerbaijani, Mammadyarov said that to some extent Iran does sees Azerbaijan as a threat. He said that some Iranians even refer to Azerbaijan as part of Iran, with some conservative Iranian papers referring to Azerbaijan as a "province" belonging to Iran. There is a large Azerbaijani influence in Iran, whereas the opposite is not the case. Azerbaijan has economic cooperation with Iran. Iran has tried unsuccessfully to "export its religious fundamentalism" to Azerbaijan. Truth be told, Azerbaijan's influence on Iran is greater than Iran's influence on Azerbaijan, Mammadyarov said.

Azerbaijan's Modernization Efforts

¶15. (C) Mammadyarov said it was "not easy" to modernize Azerbaijan; it was a hard task to "change mentality," which will be a "generational task." As such, one of President Aliyev's priorities is to modernize Azerbaijan's school system, which is the "best investment" one can make for the country. "Changing mentalities" is also crucial for combating corruption, which also cannot be eradicated just

via law enforcement.

¶16. (C) Mammadyarov referred to the GOAJ's strong economic growth over the last few years (26 percent in 2005 and 34.05 percent in 2006), adding that first quarter 2007 growth was 40 percent, and the expected 2007 annual growth would be greater than 30 percent. The Oil Fund was working well, but the GOAJ still needed to enact financial reforms. However, the GOAJ has a "good team" in place, and if "we talk openly and honestly," then there will be progress.

¶17. (C) Mammadyarov said he was similarly optimistic about the regional situation. There will eventually be a solution for Nagorno-Karabakh: "Armenia will eventually realize that it is better to be part of the team." Putin is smart, and Russia will eventually realize Azerbaijan's independence. They already realize they must do "damage control" in Azerbaijan due to their hamfisted policies. Yergin, Stent and Mammadyarov agreed that Putin was grooming Russian First Deputy Prime Minister Sergei Ivanov to become the next Russian President.

¶18. (C) COMMENT: Mammadyarov's first-hand take after his trip to Iran is interesting, although his impression of Azerbaijan exerting any sort of influence on Iran is debatable. His relatively upbeat assessment of Azerbaijan's general situation tracks well with sentiments expressed by President Aliyev, and bespeak an unwillingness to talk openly about the very real and serious challenges Azerbaijan faces, particularly in the areas of democracy and transparency. END COMMENT.
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